

## THE COMPANY

*Commodore International Limited is a fully integrated manufacturer of advanced microcomputer systems, semiconductor components, consumer electronic products, and office equipment. Manufacturing facilities are located in North America, Europe and the Far East. Marketing is worldwide. Research expenditures comprise approximately 5% of sales and are devoted primarily to the development of new products using solid state integrated circuitry, computer technology and consumer electronics.*

### **About the Cover:**

**Commodore is a fully integrated manufacturer of microcomputer systems. From the silicon wafers to the printed circuit boards to the microcomputers, just about every important element in Commodore's computers is manufactured by Commodore.**

# FINANCIAL HIGHLIGHTS

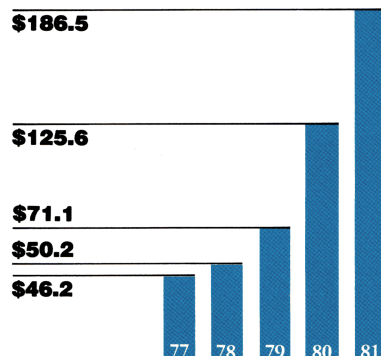
(000s omitted except per share amounts)

Year Ended June 30	1981	1980	1979	% Change 1981 vs. 1980
Net Sales	<b>\$186,500</b>	\$125,600	\$71,100	<b>+ 48.5%</b>
Gross Profit Margin	<b>44.4%</b>	40.3%	32.5%	—
Net Profit Margin <sup>(1)</sup>	<b>13.4%</b>	12.9%	8.4%	—
Net Income <sup>(1)</sup>	<b>\$ 24,900</b>	\$ 16,200	\$ 6,000	<b>+ 53.7%</b>
Shareholders' Equity	<b>\$ 61,600</b>	\$ 35,500	\$20,800	<b>+ 73.5%</b>
Earnings Per Share <sup>(1) (2)</sup>	<b>\$ 2.42</b>	\$ 1.56	\$ .62	<b>+ 55.1%</b>
Average Shares Outstanding <sup>(2)</sup>	<b>10,307</b>	10,395	9,720	—
<b>Quarterly Earnings Per Share<sup>(1) (2)</sup></b>	<b>1980-81</b>	1979-80	1978-79	
September 30	<b>\$.44</b>	\$.30	\$.12	
December 31	<b>\$.56</b>	\$.30	\$.14	
March 31	<b>\$.66</b>	\$.38	\$.15	
June 30	<b>\$.76</b>	\$.58	\$.21	

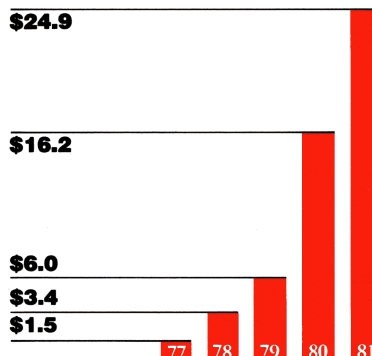
(1) Includes credit for reversal of United Kingdom taxes of \$1,700,000 (\$.17 per share) in fiscal 1980 and excludes extraordinary items.

(2) All per share figures adjusted for stock splits made during fiscal 1981 and 1980.

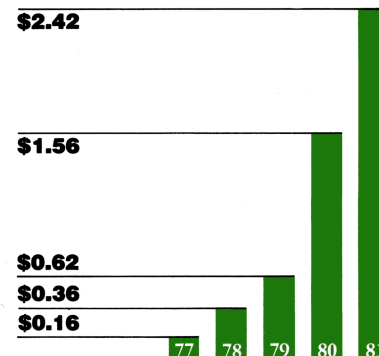
**Net Sales**  
(In millions)



**Net Income Before  
Extraordinary Items**  
(In millions)



**Earnings Per Share  
Before Extraordinary  
Items** (In dollars)



## TO OUR SHAREHOLDERS

**F**iscal 1981 was, by far, the best year in Commodore's 23 year history. The record results achieved are testimony to Commodore's continuing high level dedication to research and development, an integrated manufacturing structure and a very strong worldwide marketing organization.

Your Company has experienced very rapid growth and changes over the past five years, and the four pages immediately following this letter are intended to give you a detailed look at Commodore today. We urge all of you to please take the time to read them as well as the rest of this Report.

### **Sales Gain 48%; Net Income Up 54%; Earnings Per Share Rise 55%**

For the year ended June 30, 1981, Commodore's sales were a record \$186,500,000, or 48.5% above the \$125,600,000 registered in fiscal 1980. Net income before extraordinary items rose 53.7% to a record \$24,900,000 in fiscal 1981 compared to \$16,200,000 in fiscal 1980. Most important, fiscal 1981 earnings per share before extraordinary items were \$2.42, 55.1% above the previous record \$1.56 registered in fiscal 1980.

### **Computer System Sales**

Sales of Commodore's microcomputer systems in fiscal 1981 accounted for 71% of overall Company sales compared to 66% in fiscal 1980. Overall microcomputer system sales rose to a record \$132,500,000, or 60% above the \$82,800,000 reported for fiscal 1980.

Commodore's participation in the business market continued to grow steadily with the success of the CBM 8000 series business microcomputers which were introduced in the fourth quarter of fiscal 1980.

Strong sales of Commodore's PET®, the world's first self-contained personal computer system, also contributed to Commodore's outstanding performance.

A new U.S. advertising campaign, sched-

uled to begin in October, 1981, is expected to assure further growth for Commodore microcomputers in the current fiscal year.

### **Semiconductor Sales**

Commodore's Semiconductor Components Division is the nucleus of the Company's vertically integrated structure. Aside from producing the vital semiconductor devices which provide the heart of Commodore's microcomputers, the Company's Semiconductor Components Division also provides an important source of revenues and earnings to Commodore through the sale of semiconductor devices to outside customers.

In a year when most other semiconductor companies experienced a business downturn, for fiscal 1981, Commodore's sales of semiconductors rose 85% to a record \$34,900,000 from \$18,900,000 in fiscal 1980. It is also worth noting that Commodore's fiscal 1980 semiconductor sales were 89% above the level recorded in fiscal 1979.

### **Consumer Products/Office Equipment**

For fiscal 1981, combined sales of these divisions were \$19,100,000 compared to \$23,900,000 in fiscal 1980. The Office Equipment Division, however, continued to be an important factor in supplying Commodore with the metal housings for thousands of microcomputers produced in fiscal 1981.

Commodore's Office Equipment Division enjoys a leading position in Canada and has recently invested \$2.5 million in automated equipment to increase capacity and allow for sales expansion.

The Consumer Products Division recently signed an agreement with Johnson Controls to supply them with a programmable electronic thermostat and has introduced a new line of digital watches with retail prices ranging from \$7.95 to \$19.95.

### **Financial Strength**

Commodore finished fiscal 1981 in the strongest financial condition in its history.

The two charts to the right are key indicators of the strength and growth of Commodore International over the past five years.

The increase in Net Profit Margin derives from Commodore's continued strong market position, emphasis on maximum productivity from its vertically integrated operations and effective cost controls.

Commodore's very high Return on Average Shareholders' Equity has also risen substantially over the past five years and at 51.3% is currently one of the highest for any publicly-owned corporation.

As of June 30, 1981, current assets totalled \$111,700,000 compared to current liabilities of \$50,200,000, resulting in a current ratio of 2.2 to 1 and a net working capital position of \$61,500,000. This compares favorably to fiscal year-end 1980 when the current ratio was 2.3 to 1, but the net working capital position was only \$38,000,000.

At fiscal year-end 1981, long-term debt was \$32,000,000 and compared to shareholders' equity of \$61,600,000. Therefore, long-term debt constituted only 34.2% of total capital, an improvement over the 40.6% at fiscal year-end 1980.

Perhaps the most impressive thing about Commodore's financial strength is the very high after tax return on average shareholders' equity Commodore has been able to achieve—over 50% in each of the past two years. This and the growth in our net profit margin are illustrated on the two graphs below.

### Fiscal 1982 Outlook

As Commodore enters fiscal 1982, overall sales demand continues quite strong for the Company's two major products, microcomputers and semiconductor devices, which together should contribute well over 90% to sales and net income in the current fiscal year.

Commodore's Computer Systems Division is currently producing microcomputers and home computers at the highest unit rate in its

history. United States and European demand for all Commodore computer systems is also at the highest level in the Company's history, and the demand for the VIC 20, the Company's brand new, very low-priced home computer is unprecedented for any new product Commodore has ever introduced.

Commodore's Semiconductor Components Division currently has, by far, the largest firm backlog in its history. This backlog assures excellent growth for this Division in the current year.

Commodore's management has every reason to believe that the current fiscal year will be the very best year in sales, net income and earnings per share in the Company's history.

We would like to thank all of you—our shareholders, employees, customers, and suppliers—for your continued support and loyalty which have helped make Commodore a leader in the microcomputer industry.

Sincerely,

*Irving Gould* *Jack Tramiel*

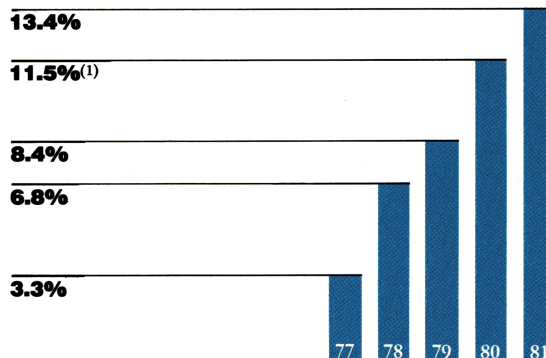
Irving Gould  
Chairman of  
the Board

Jack Tramiel  
Vice Chairman and  
Chief Executive Officer

September 14, 1981

### Net Profit Margin Before Extraordinary Items

(Percent)



### Return on Average Shareholders' Equity (Percent)

51.6%<sup>(1)</sup>

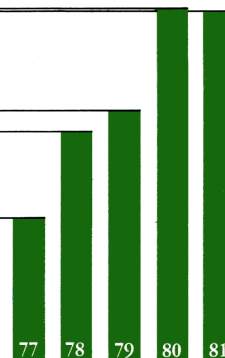
51.3%

36.5%

33.2%

21.0%

(1) Based on after-tax income from continuing operations, and excluding \$1,700,000 reversal of U.K. taxes in fiscal 1980.



### EVOLUTION 1975-1981

**D**uring the 1970-1974 period, Commodore established itself as a very efficient low-cost assembler of hand held calculators. By carefully purchasing calculator component parts from others, including the essential calculator semiconductor chips, Commodore became the first to introduce and mass market a hand held electronic calculator for under \$100.

In 1975 Commodore learned a lesson that changed dramatically its future course of development. Industry overcapacity developed in the manufacture of semiconductors and this, combined with an economic recession, led to an oversupply situation in the semiconductor industry. One of the major suppliers of calculator semiconductor chips then decided simultaneously to lower the price of an individual calculator chip from \$12 to \$1 and to bring out its own hand held electronic calculator for only \$29.

This caused turmoil and many of the then leading suppliers of hand held calculators went bankrupt. Commodore survived, but barely. From a small profit in fiscal 1974, a loss of \$5 million was recorded in 1975.

After analyzing the debacle that had occurred, Commodore management decided that the Company's obvious limitation was its dependence upon outside sources of supply for its major component needs, semiconductors.

Commodore management then made a very deliberate decision: if it was going to remain in the consumer electronics business, it had to have the ability to determine its own fate and not depend upon outside concerns for its

vital raw material needs—semiconductor devices.

In 1976 and 1977, Commodore acquired two semiconductor facilities which have become the spearheads of its business.

When it was acquired in November, 1976, MOS Technology was losing \$100,000 monthly, but it was quickly transformed into a profitable concern by Commodore management.

In April, 1977, Commodore acquired Frontier Manufacturing, another semiconductor company. It was quickly integrated into the Commodore Semiconductor Components Division.

A third company, Micro Display Systems, was acquired in February, 1979, and its liquid crystal display business complemented that of MOS Technology and Frontier.

These three companies now comprise Commodore's Semiconductor Components Division. This Division today supplies Commodore's Computer Systems Division with new and innovative semiconductor chip designs as well as its basic semiconductor component and microprocessor needs. In addition, through sales to outside customers, this Division also contributed 19% to Commodore's overall sales.

The sales of the Semiconductor Components Division to these outside customers have grown, without interruption, from \$7.9 million in fiscal 1977 to \$34.9 million in fiscal 1981. This growth is graphically illustrated on page 9.

The 1975-1981 period was indeed an evolutionary one for Commodore. A company that had merely been a low cost assembler with good marketing expertise emerged as the Commodore of today—a vertically integrated producer of highly reliable and advanced semiconductors and microcomputer systems.

1981

1975

### THE COMPANY

**C**ommodore today is primarily a vertically integrated manufacturer of microcomputers. For the fiscal year ended June 30, 1981, Commodore's Computer Systems Division sales were \$132.5 million and accounted for 71% of overall Company sales of \$186.5 million while Commodore's Semiconductor Components Division sales to outside customers were \$34.9 million and accounted for 19% of overall Company sales. Together, these two divisions accounted for 90% of Commodore's fiscal 1981 sales and made an even greater contribution to the Company's net income.

The following is a detailed look at Commodore today, one of the world's technological leaders committed to the manufacture of vertically integrated products. The boxed area below shows each of the Company's four divisions, that division's contribution to overall Company sales, and the company or companies that comprise each division.

#### COMPUTER SYSTEMS DIVISION

**(71% of fiscal 1981 sales)**

**Manufacturing Facilities:**

*Santa Clara, California • Braunschweig, West Germany*

**Assembly Facilities:**

*Santa Clara, California • Braunschweig, West Germany • Tokyo, Japan (subcontractor)*

**Major Distribution Facilities:**

*Seven major U.S. Cities • Toronto, Canada • Slough, England • Neu Isenberg, West Germany • Basel, Switzerland • Horsens, Denmark • Breda, Holland • Oslo, Norway • Tokyo, Japan • Hong Kong • Sydney, Australia*

#### SEMICONDUCTOR COMPONENTS DIVISION

**(19% of fiscal 1981 sales)**

**Manufacturing Facilities:**

*MOS Technology, Valley Forge, Pennsylvania*

*Manufacturing process: N-Channel silicon gate*

*Frontier Manufacturing, Costa Mesa, California*

*Manufacturing processes: C-MOS metal gate and N-Channel silicon gate; within 12-18 months, C-MOS silicon gate*

*Optoelectronic Division, Dallas, Texas*

*Manufacturing process: Liquid crystal displays (LCD's)*

#### CONSUMER PRODUCTS DIVISION

**(4% of fiscal 1981 sales)**

*Consumer Products Group, King of Prussia, Pennsylvania*

*Commodore Business Machines (U.K.), Ltd., Slough, England*

#### OFFICE EQUIPMENT DIVISION

**(6% of fiscal 1981 sales)**

*Commodore Business Machines Ltd., Toronto, Canada*

## THE PRODUCTS

**W**ithin Commodore's broader division categories, such as Computer Systems and Semiconductor Components, the Company makes a vast array of products. The extent of vertical integration achieved by Commodore is most clearly manifest when one examines the many products produced by the Company—almost all of them the result of Commodore's research and development efforts.

The column to the right is a detailed look at the various major products manufactured and distributed by Commodore, while the charts below show the relative contribution made by each division to Commodore's overall sales.

### 1981 Net Sales by Division

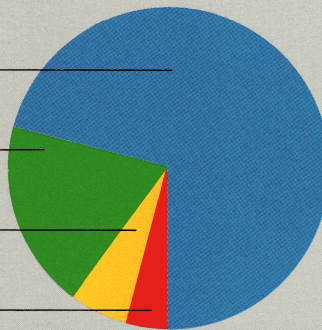
(Percent)

**Computer Systems 71%**

**Semiconductor Components 19%**

**Office Equipment 6%**

**Consumer Products 4%**



### 1980 Net Sales by Division

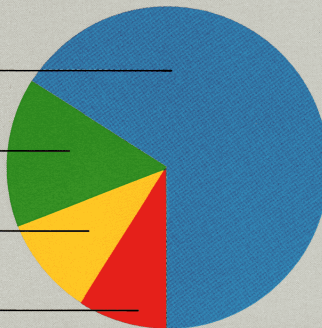
(Percent)

**Computer Systems 66%**

**Semiconductor Components 15%**

**Office Equipment 10%**

**Consumer Products 9%**



### Computer Systems

#### PET: FOR THE EDUCATOR, STUDENT, PROGRAMMER AND HOBBYIST.

- Models 4008, 4016 and 4032: computer with large terminal styled keyboard with separate numeric pad and graphic keys; 40 column by 25 line display; Model 4016 with 16K RAM and Model 4032 with 32K RAM.

#### CBM 8000: FOR THE BUSINESSMEN.

- Models 8032 and 8096: computer with typewriter styled keyboard with separate numeric pad; 80 column by 25 line display and new screen editor functions; Model 8032 with 32K RAM and Model 8096 with 96K RAM.

#### SUPERPET: PRIMARILY A DEVELOPMENT SYSTEM.

- Pseudo 16-Bit 6809 based computer with 96K user RAM. Typewriter styled keyboard with 80 column by 25 line display. Can use several languages, including BASIC, FORTRAN, APL, PASCAL and Assembler.

#### MAIN PERIPHERALS

- CBM 4040 Dual Drive Floppy Disk; with 340K byte net user storage capacity.
- CBM 8050 Dual Drive Floppy Disk; over 950K byte net user storage capacity.
- CBM 4022 Dot Matrix Tractor Printer; 80 column dot matrix printer.
- CBM Modem; high performance 300 BAUD IEEE interfaced modem.
- CBM Voice Synthesizer; features phoneme synthesis for vocabulary construction.
- CBM C2N Cassette Drive; cassette input / output unit for PET / CBM computers.

### Semiconductor Division

- ROM's for internal use and outside customer sales.
- 6500 microprocessors for internal use and outside customer sales.
- Custom designed chips for internal use.
- Custom made chips for outside customer sales.
- CMOS watch chips.
- Liquid crystal displays (LCD's) for outside customer sales and, in the future, internal use with computers.

### Consumer Products

- Electronic thermostat.
- Electronic watches with liquid crystal displays.

### Office Equipment

- Outside housing for PET and CBM computer systems.
- Steel office furniture.

The charts to the right illustratively show how the combined sales of Commodore's Computer Systems Division and Semiconductor Components Division accounted for combined sales equal to 90% of Commodore's total fiscal 1981 sales compared to 81% in fiscal 1980. Most important, these two Divisions contributed well over 90% to Commodore's net income in fiscal 1981.

### PHILOSOPHY

**C**ommodore management is committed to a philosophy to be 100% vertically integrated, a goal that has been substantially achieved.

To achieve this objective economically, Commodore must be able to produce semiconductors for itself and also be able to produce and sell that same product to outside customers. This is now being done.

The reason for this is relatively simple. The semiconductor industry has historically gone through periods in which there were continuous shifts in supply and demand, leading to peak and valley cycles. This has always been true.

During the cycles when the demand for semiconductor devices is high, Commodore produces and sells semiconductors to outside

customers. It does this even though it may mean that it has to purchase semiconductor devices from outside suppliers for its own internal needs.

When the demand for semiconductor devices slackens and outside customer sales begin to decline, Commodore will scale back outside purchases and use its own semiconductor production capacity to fill its own needs. This reduces high, fixed non-productive overhead.

The balance is a delicate one. To help achieve it, while Commodore will produce custom chips for outside customers based upon their design patterns which they supply to Commodore, the Company will not design custom chips for them. Rather, the full time and effort of Commodore's engineering staff is utilized in designing custom chips for Commodore's own use based upon what type of end products, in particular microcomputers, Commodore believes the market will need twelve to eighteen months from now.

Short-term, yes, during those peak cycles Commodore could easily maximize profits by putting all its design engineers to work designing custom chips for outside customers.

Commodore's operating philosophy, however, is somewhat more pragmatic. Commodore has the proven capacity to utilize its own chip designs in its own end products and the Company does not plan to deviate from the philosophy that it will design custom chips only for itself. The success of the Company's internally developed 6500 series microprocessor, now used in many computers other than its own computer systems, is proof that if Commodore develops a good product for itself, it will also be able to sell it to outside customers.





**Pictured to the left is a Commodore Engineer designing a complex semiconductor chip. Commodore has approximately 160 engineers, 43 of whom do design work based only on Commodore's current and future needs.**

## VERTICAL INTEGRATION

**T**he concept of vertical integration is something that the managements of many companies talk about but few achieve.

Commodore is built around the concept of vertical integration. Just about every important part contained in a Commodore microcomputer, beginning with the semiconductor integrated circuits and ending with the cabinets in which the entire computer mechanism is housed, is designed and built by Commodore.

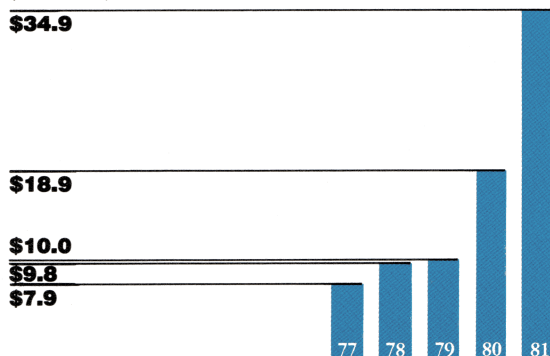
Commodore management is committed to a philosophy of vertical integration in order to match present and future needs for critical components with an assured and competitive supply. This goal has been substantially achieved through both internal development and acquisition.

Because Commodore designs its own semiconductor chips, the designs can be tailored to the specific needs of the Company's products to provide the optimum trade offs between performance and cost. Having both chip and system design within the corporate structure creates very efficient interfacing and significantly reduces the time from concept to an operational circuit and the final product.

**Commodore's Semiconductor Components Division is the heart of the Company's vertically integrated structure. To achieve optimal manufacturing efficiencies, Commodore produces semiconductor devices and microprocessors for both its own internal microcomputer needs as well as for sale to outside customers. Pictured to the right is a graph of Commodore's semiconductor trade sales, excellent testimony to the fact that Commodore is both a highly reliable semiconductor manufacturer and very competitive company in the semiconductor industry.**

### Semiconductor Components Division Sales to Outside Customers

(In millions)



The full time and effort of our engineering staff is utilized in designing and producing custom chips for Commodore's own use based upon the type of end products, in particular microcomputers, management believes the market will need twelve to eighteen months from now. Most of the products developed also satisfy a broad range of applications for the outside market and ultimately contribute significantly to total sales.

By designing its own chips, market sensitivity and competitiveness is maintained by Commodore. In order to exist as a viable supplier to the outside market, the semiconductor group must maintain pace with industry state-of-the-art developments in design, technology, performance and cost. These competitive forces from the outside market thus provide internal semiconductor user operations with an economical, efficient, and service oriented supplier—Commodore.

Thus, while other companies shop around to put pieces together from different manufacturers, much like a jigsaw puzzle, Commodore designs its own pieces around its own silicon chips.

New microprocessors and peripherals designed at Commodore have the end system in mind, not only for Commodore, but for the entire industry itself. Thus, the systems built around these devices have ingrained in them the results of the learning process that went into designing these chips themselves.

Commodore, through the confluence of its systems and component marketing experience, offers the latest in technology, first for its own use, and eventually for the industry of which it is a part—all of this the result of its vertically integrated structure.

## RESEARCH AND DEVELOPMENT

**T**he research and development activities of Commodore are conducted on the same worldwide basis as manufacturing and sales.

In fiscal 1981, Commodore's research and development expenditures totalled \$8,400,000 compared to \$6,600,000 in 1980.

Semiconductor design and manufacturing expertise is centered in Valley Forge, Pennsylvania for microprocessors and associated integrated circuits and in Costa Mesa, California for complementary MOS integrated circuits. Talented new product teams in both locations are continuing to feed products that fill the needs of the worldwide market places of Commodore. These new product activities have contributed to Commodore's Semiconductor Division growth of 84.6% during fiscal 1981 during a period of time when the total U.S. semiconductor industry declined by 5.5%.

Commodore's worldwide computer orientation and its own strong internal semiconductor requirements have contributed to an outstanding success rate for new products. An example of such a leadership product is the Video Interface Circuit, an integrated circuit made for generating computer displays in color on a standard television screen. This advanced integrated circuit is available in

U.S., Japanese and European television standards and made possible the development and introduction of Commodore's new VIC 20 home computer.

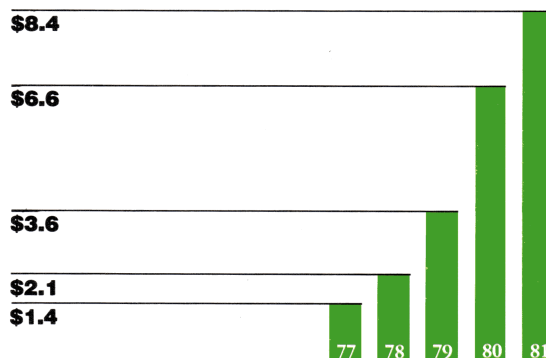
In research and development on microcomputers and peripherals, the international orientation and unique management style of Commodore is most apparent. Research and new product development on microcomputers is the responsibility of a group located in Valley Forge. Production engineering and tooling organizations exist in Santa Clara and Tokyo. A product such as the VIC 20 computer was conceived by the microcomputer research team in Valley Forge, and was tooled and placed in production by the group in Japan.

Commodore's innovative management approach is no where more obvious than in the entry into new businesses or the acquisition of know-how not previously available within Commodore. Commodore encourages both the natural entrepreneurial trend of its own employees and other computer and software specialists that come to Commodore with products or ideas that are considered to be relevant to the business of Commodore.

In these businesses, Commodore contracts with the entrepreneurial group to develop product under Commodore funding. After the new product is in production, the entrepreneurial team shares in the sales or profits of the products they have developed.

Several examples of this type of operation exist within Commodore at the present time, including the Commodore Storage Products Division which was formed in June, 1981 to investigate and develop a new type of magnetic memory which is a back-up to a hard disk drive. This product will combine many of the desirable capabilities found in floppy disk memories, hard disk memories and tape drive. Products resulting from this effort should be available for introduction in the fourth quarter of the current fiscal year.

**Research & Development Expenditures**  
(In millions)



**Commodore's Research and Development Expenditures approximate 5% of sales. Most of the R & D expenditures relate to developing new types of semiconductor devices to be used in new Commodore microcomputers planned for introduction over the next 12 to 18 months.**

## MANUFACTURING AND PRODUCTION



**C**ommodore's main production facility in Santa Clara, California placed its emphasis for the past year on becoming more efficient through standardization of the product, automation and quality improvement.

This was accomplished by eliminating a 9" screen for Commodore's 40 column microcomputers. This allows for standardization in unit size, parts and the introduction of the 40/80 universal printed circuit board which permits us to produce any unit at virtually any stage of the production cycle.

In addition, the start-up of Commodore's new Braunschweig, West Germany plant has provided further standardization. With two production facilities, Commodore's United States plant is geared to producing primarily for the U.S., Canadian and Japanese markets while Braunschweig, West Germany produces primarily for Europe and the rest of the world.

As a result of the above, Commodore experienced significant cost savings by:

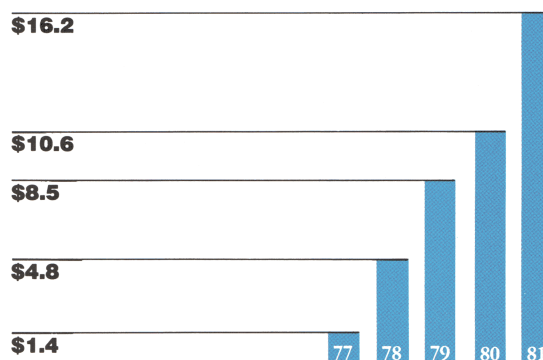
1. standardizing parts requirements, thus eliminating the chance for excess inventories through product mix changes;
2. lowering transportation costs with two production facilities satisfying their respective markets;
- and 3. higher productivity per employee.

The Santa Clara plant experienced a production increase over the year from a level of 350 microcomputer and related peripheral units per day at the beginning of the year to 550 per day by year-end. The Company's plant in Braunschweig began production in January, 1981 and was up to a production level of 200 microcomputers per day by fiscal year-end.

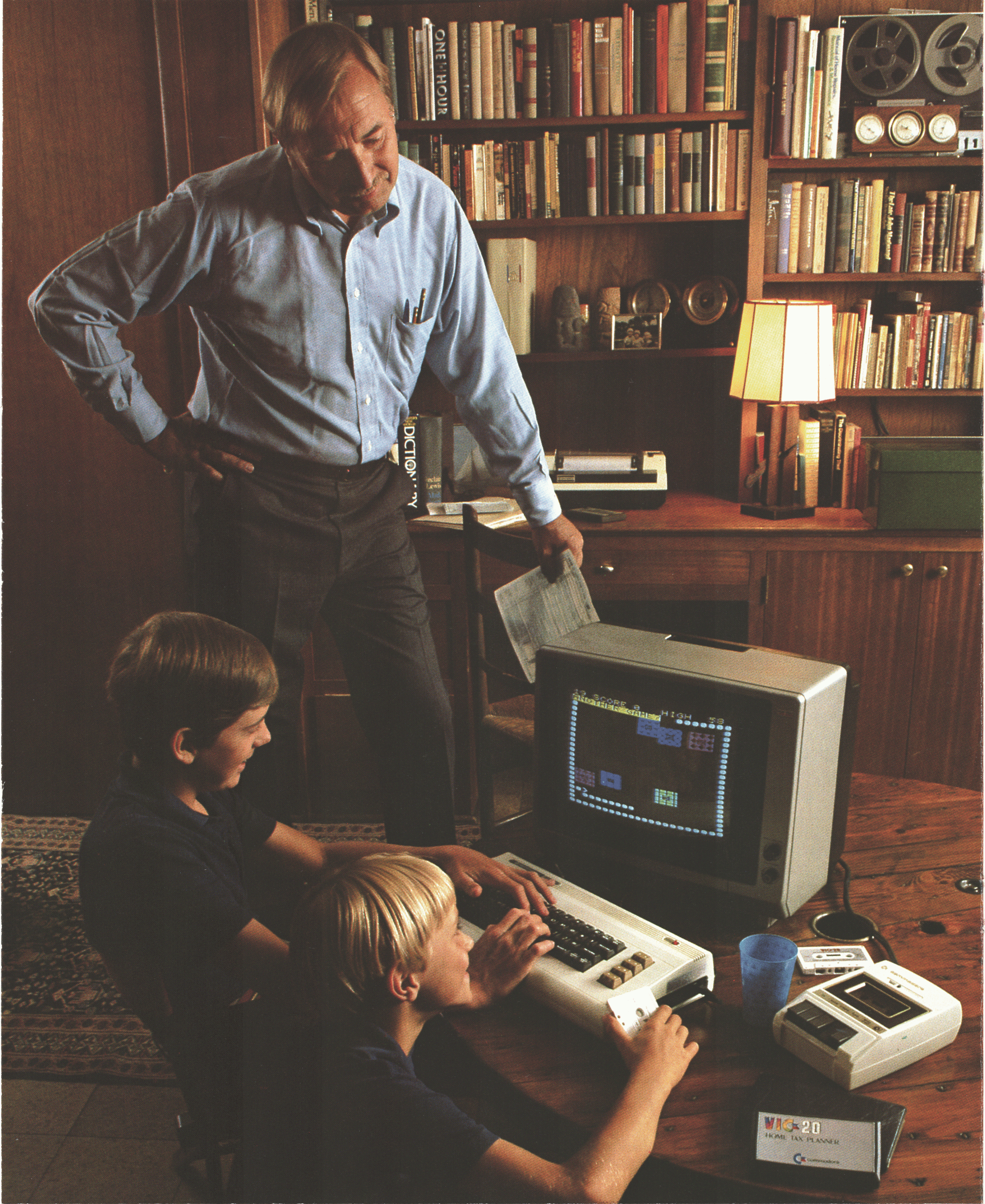
Commodore recently began production of its color home computer, the VIC 20, at both its Santa Clara and Braunschweig facilities. A production level of 20,000 units per month is expected to be reached during the second quarter of the current fiscal year, or by December 31, 1981, with virtually no effect on current production levels of other existing products.

### Capital Expenditures

(In millions)



Commodore's capital expenditures have risen dramatically over the past five years—more than tenfold, in fact—as shown on the graph to the right. Over the next two years, Commodore expects to spend more than \$40 million on further capital expansion, most of which will be to further strengthen its semiconductor facilities.



*Pictured to the left is a father patiently waiting to do his taxes on the VIC 20 while his children finish playing a VIC 20 cartridge game.*

## NEW PRODUCTS

**T**he significance of Commodore's continuing new product development efforts cannot be overemphasized. Just four short years ago, Commodore introduced to the world the first microcomputer for under \$1,000. That microcomputer formed the foundation for Commodore's Computer Systems Division which in fiscal 1981 accounted for 71% of Company sales.

### The VIC 20

Commodore's VIC 20 is the world's first full-featured, expandable color computer at the price of a home video game. It connects with any color TV set or monitor, and provides 5K bytes of memory with the capability to expand to 32K RAM.

The VIC 20 offers the user full computer capabilities as well as outstanding color and sound resolution which means the VIC 20 can also be used for many available cartridge game applications which equal or exceed the quality of anything available today.

### The SuperPET

The SuperPET was another exceptional new product introduced during 1981 with sales to begin in the current fiscal year.

The SuperPET offers expanded capabilities by providing 96K RAM, additional 6809 16

bit microprocessor, and a standard data communication interface.

### New Disk Drives

Two disk drives, the CBM 2031 and the CBM 8250, were also introduced during the year. The 2031 stores up to 170K on a single floppy disk, while the 8250 dual disk drive stores over two million characters of data.

### CP/M Board Add-On

Additionally, a new add-on board providing a Z80 microprocessor and 64K RAM will be introduced shortly. Commodore computer users will be able to draw on the vast program library of applications now running under CP/M on other microcomputers.

### 16 Bit Microprocessor

Commodore plans to introduce its own 16 bit microprocessor by the end of the current fiscal year. This new 16 bit microprocessor is expected to herald in a new generation in microprocessors. It will be one-half the size and a small fraction of the cost of existing 16 bit microprocessors.

### Software

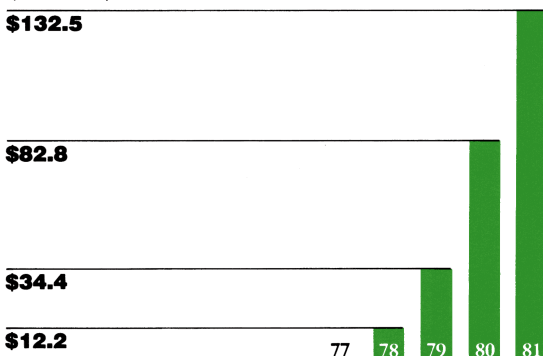
In software, Commodore continues to introduce new and versatile products designed for both general and specific applications, including its cost-effective word processing capability as well as financial applications, general data handling programs and specific legal and accounting packages.

At the recent International Computer Show in the United Kingdom, over 100 independent exhibitors from nine countries demonstrated a wide range of application packages and peripherals designed exclusively for use with Commodore's computer systems. Included was a special Communications Section, with emphasis on "office of the future" where, in addition to networking systems, there were Commodore computers connected to most major mainframe computers, including those of IBM and Digital Equipment.

*Just four short years ago Commodore introduced a then "new" product, its PET® microcomputer. That "new" product was the first product in Commodore's Computer Systems Division which in fiscal 1981 contributed \$132.5 million, or 71% to Commodore's total sales. The VIC 20 home computer was just introduced by Commodore and excellent initial public reaction to it could well mean tens of millions of dollars in new sales for Commodore.*

### Computer Systems Sales—Worldwide

(In millions)



## MARKETING

**C**ommodore has a strong worldwide marketing network that was established almost twenty years ago.

Through the purchase of a manufacturing facility in West Berlin in 1962, Commodore, early in its history, established a very strong reputation and marketing network throughout Europe, primarily using office equipment dealers to sell electro-mechanical adding machines and electronic calculators.

It was this marketing base that has helped Commodore build its number one position in Europe in the sale of microcomputers. Commodore's worldwide sales growth, primarily in Europe, is illustrated on the chart on the righthand side below.

When Commodore introduced its PET computer in late 1977 and began selling it in 1978 and 1979, the Company had limited production capacity relative to demand. Therefore, Commodore focused upon and took advantage of its strong European marketing network. It progressed less rapidly in

computer system sales in the United States although, as shown on the chart on the left-hand side below, growth was still quite commendable.

In early fiscal 1981, Commodore began building the foundation for what is to become a major marketing effort in the United States. Through the creation of seven local marketing regions and an expansion of its United States marketing team, Commodore set the stage for major growth in the United States.

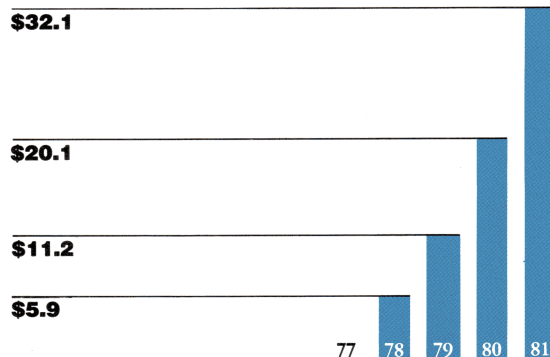
With the expanded marketing field force in place, Commodore will be undertaking major advertising and promotional campaigns during the Fall and Winter of 1981-1982 to capitalize on the investments made in the prior fiscal year.

Most recently, in August, 1981, Commodore entered into a five year agreement with TRW Inc. through its Customer Service Division under which TRW will service and maintain Commodore microcomputers throughout the United States. TRW, with more than 2,000 skilled technicians at 220 locations, is the leading supplier of third-party computer-related service and maintenance in the U.S. This agreement is expected to bolster further Commodore's marketing effort in the United States.

*Pictured to the right is a "PET®" microcomputer classroom at Waterloo University, Canada's "foremost computing university." Waterloo currently utilizes over 100 Commodore microcomputers. The development of Commodore's SuperPET microcomputer was brought about by close cooperation with Waterloo, where they developed their own language software and hardware extensions to the existing Commodore 8000 series micro-computer.*

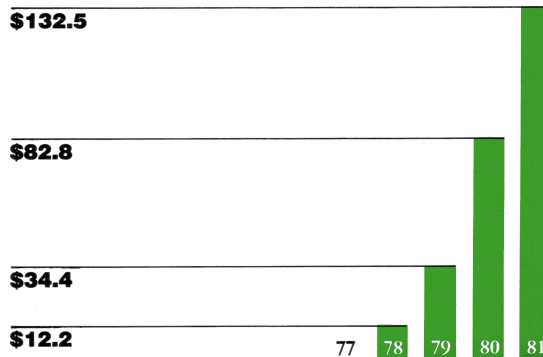
### Computer Systems Sales—United States

(In millions)



### Computer Systems Sales—Worldwide

(In millions)



*Commodore's Computer Systems Division sales, both U.S. and Worldwide, have grown dramatically since Commodore introduced the first microcomputer, the PET®, in fiscal 1978. A major U.S. advertising campaign scheduled to begin in the Fall / Winter of 1981-1982 is expected to lead to even further growth in the current fiscal year.*



## Financial Review

### Profitability Review

Commodore's net earnings before extraordinary item increased to \$24,900,000 in fiscal 1981 from \$16,200,000 in fiscal 1980. Operating profits as a percentage of sales increased to 16.5% in fiscal 1981 from 14.6% in fiscal 1980.

Pretax earnings increased \$12,500,000 in fiscal 1981 versus 1980 and was primarily attributable to stronger demand and changes in product mix. Net sales increased 48.5% in fiscal 1981 versus 1980. The Computer Systems Division contributed substantially to the noted increase with a year-to-year increase of 60%. The introduction of several new, more powerful systems selling at higher average prices accounts for the improved margin percent and operating profits.

The Semiconductor Components Division also contributed significantly to overall profits this year. The capital expansion program initiated in 1980 permitted a quadrupling of the Division's productive capacity allowing trade sales to nearly double while meeting increased internal requirements.

Operating expenses increased by 65.3% during fiscal 1981. The increase noted in fiscal 1980 over 1979 is attributable to the intensified market effort including the reorganization of the U.S. distribution network; the increased development and penetration of the international distribution network; the increased expense relating to administering the Computer Systems Division; and an expansion of the Company's research and development efforts with respect to new high technology products.

### Balance Sheet Review

#### Short-Term Debt

Short-term debt at 30 June 1981 was \$6,800,000. The Company finances its inventories and receivables with the proceeds of such lines in the ordinary course of business. The \$3,200,000 increase at 30 June 1981 over 1980 reflects increased needs to support high sales volumes. The \$10,300,000 decrease in fiscal 1980 versus 1979 can be attributed to the Company obtaining longer term financing. See Note 4 for additional discussion.

#### Long-Term Debt

The \$7,700,000 increase in long-term debt at 30 June 1981 versus 1980 is primarily attributable to the \$5,200,000 increase in capital lease obligations, and a \$2,500,000 mortgage on the new microcomputer manufacturing facility in Braunschweig,

West Germany. The \$18,800,000 increase in fiscal 1980 versus 1979 is explained as follows: \$10,300,000 representing long-term financing of previously short-term obligations; a \$2,800,000 increase in capital lease obligations related to machinery and equipment obligations; \$2,600,000 representing the cost of acquiring a corporate aircraft; and the remaining \$3,100,000 to fund working capital requirements in a high growth environment.

### Shareholders' Equity

Shareholders' equity increased 73.5% to \$61,600,000 at 30 June 1981 as compared to \$35,500,000 last year. Return on average shareholders' equity has surpassed the 50% level for the second consecutive year at 51.3%.

Shareholders' equity per share was \$5.98 and \$3.42 at 30 June 1981 and 1980, respectively. See chart page 3.

### Consolidated Fourth Quarter Results

Sales during the fourth quarter of 1981 were \$56,100,000 (1980—\$35,600,000). Income before extraordinary item for the quarter was \$7,800,000 in 1981 (1980—\$6,200,000). The increase in sales of 58% for 1981's fourth quarter as compared to the same quarter in 1980 is consistent with the increased sales that the company experienced throughout the year. Income before extraordinary item increased almost 26% in 1981's fourth quarter over 1980's comparable period. This increase was the result of an additional \$20,500,000 in sales and improved gross profit due to sales mix and production efficiencies.

**Commodore International Limited and Subsidiaries**
**Five-Year Comparison of Selected Financial Data**

(000s omitted except per share amounts)

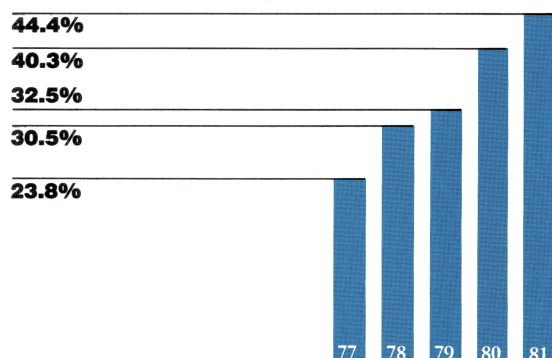
	Year Ended 30 June				
	1981	1980	1979	1978	1977
<b>Net Sales</b>	<b>\$186,500</b>	\$125,600	\$ 71,100	\$ 50,200	\$ 46,200
<b>Gross Profit</b>	<b>82,800</b>	50,600	23,100	15,300	11,000
<b>Operating Expenses</b>	<b>48,100</b>	29,100	13,000	9,000	7,700
<b>Interest Expense, net</b>	<b>3,900</b>	3,200	2,100	1,100	1,100
	<b>52,000</b>	32,300	15,100	10,100	8,800
<b>Income</b> before income taxes and extraordinary item	<b>30,800</b>	18,300	8,000	5,200	2,200
<b>Provision for Income Taxes:</b>					
Taxes on income	<b>5,900</b>	3,800	2,000	1,800	700
Income after taxes on income, but before reversal of U.K. taxes	<b>24,900</b>	14,500	6,000	3,400	1,500
Reversal of U.K. taxes	<b>—</b>	1,700	—	—	—
<b>Income</b> before extraordinary item	<b>24,900</b>	16,200	6,000	3,400	1,500
<b>Extraordinary Item</b>	<b>500</b>	700	500	600	—
<b>Net Income</b>	<b>\$ 25,400</b>	\$ 16,900	\$ 6,500	\$ 4,000	\$ 1,500
<b>Earnings Per Share (1):</b>					
Income before extraordinary item (2)	<b>\$ 2.42</b>	\$ 1.56	\$ 0.62	\$ 0.36	\$ 0.16
Extraordinary Item	<b>0.04</b>	0.07	0.05	0.06	—
Net income	<b>\$ 2.46</b>	\$ 1.63	\$ 0.67	\$ 0.42	\$ 0.16
<b>Weighted Average Shares (1)</b>	<b>10,307</b>	10,395	9,720	9,471	9,132
<b>Total Assets</b>	<b>\$145,100</b>	\$ 88,900	\$ 57,500	\$ 38,000	\$ 31,100
<b>Long-Term Debt</b>	<b>\$ 32,000</b>	\$ 24,300	\$ 5,500	\$ 5,400	\$ 3,800

(1) Earnings per share and weighted average shares for fiscal years 1977 through 1980 have been restated to reflect stock splits in fiscal 1980 and 1981.

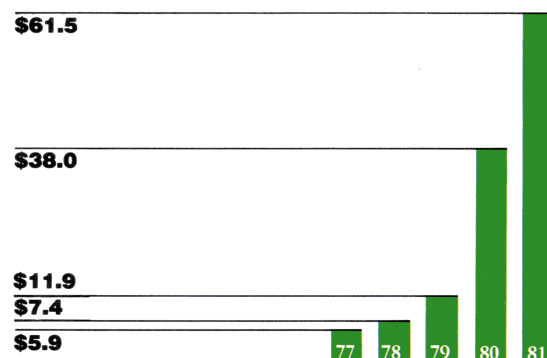
(2) Includes \$0.17 relating to reversal of U.K. taxes in fiscal 1980.

**Gross Profit Margin**

(Percent)


**Working Capital**

(In millions)



Commodore International Limited and Subsidiaries

# Consolidated Statements of Shareholders' Equity

(000s omitted)

	Common Stock (\$1 Par Value)	Contributed Surplus	Retained Earnings	Total
<b>Balance, 30 June 1978</b>	\$ 1,400	\$ 1,800	\$ 9,100	\$12,300
Net income	—	—	6,500	6,500
Exercise of employee stock options (Note 6)	—	200	—	200
Issuance of shares for an acquisition (Note 2)	100	1,700	—	1,800
<b>Balance, 30 June 1979</b>	1,500	3,700	15,600	20,800
Net income	—	—	16,900	16,900
Issuance of shares pursuant to stock splits (Note 6)	1,800	(1,800)	—	—
Exercise of employee stock options	100	200	—	300
Retirement of common shares (Note 2)	(100)	(800)	(1,600)	(2,500)
<b>Balance, 30 June 1980</b>	3,300	1,300	30,900	35,500
Net income	—	—	25,400	25,400
Issuance of shares pursuant to stock splits	6,700	(1,300)	(5,400)	—
Exercise of employee stock options	100	200	—	300
Compensation related to employee stock options (Note 6)	—	400	—	400
<b>Balance, 30 June 1981</b>	\$10,100	\$ 600	\$50,900	\$61,600

The accompanying notes are an integral part of these statements.

## Commodore International Limited and Subsidiaries

**Consolidated Statements of Changes in Financial Position**

(000s omitted)

	Year Ended 30 June		
	1981	1980	1979
<b>Working Capital was Provided by:</b>			
Income before extraordinary item	<b>\$24,900</b>	\$16,200	\$ 6,000
Items not requiring working capital—			
Depreciation and amortization	<b>4,600</b>	3,500	2,500
Deferred income taxes	<b>1,300</b>	(1,700)	1,700
Total working capital provided by operations	<b>30,800</b>	18,000	10,200
Extraordinary item	<b>500</b>	700	500
Increase in long-term debt	<b>10,600</b>	19,800	4,100
Net book value of property and equipment retired	<b>300</b>	200	1,800
Common stock issued upon exercise of stock options	<b>300</b>	300	200
Compensation related to employee stock options	<b>400</b>	—	—
(Increase) decrease in other assets	<b>(300)</b>	200	(400)
Total working capital provided	<b>42,600</b>	39,200	16,400
<b>Working Capital was Applied to:</b>			
Purchase of property and equipment	<b>16,200</b>	10,600	4,400
Acquisition of purchased business (Note 2)			
Property and equipment	—	—	4,100
Cost in excess of fair value of net assets	—	(1,000)	1,300
Common stock transactions	—	2,500	(1,800)
Transfer of long-term debt to current portion	<b>2,900</b>	1,000	4,000
Total working capital applied	<b>19,100</b>	13,100	12,000
<b>Increase in Working Capital</b>	<b>\$23,500</b>	\$26,100	\$ 4,400
<b>Changes in Working Capital Consist of Increases (Decreases) in:</b>			
Current assets—			
Cash	<b>\$ 4,400</b>	\$ 2,500	\$ 1,800
Accounts receivable	<b>22,800</b>	10,000	9,200
Inventories	<b>16,700</b>	13,100	(2,100)
Prepaid expenses	<b>700</b>	100	100
Working capital, net, from acquisitions	—	—	(3,400)
	<b>44,600</b>	25,700	5,600
Current liabilities—			
Loans payable	<b>1,300</b>	(9,000)	(700)
Current portion of long-term debt	<b>1,900</b>	(1,300)	1,700
Accounts payable and accrued liabilities	<b>15,800</b>	7,300	500
Income taxes payable	<b>2,100</b>	2,600	(300)
	<b>21,100</b>	(400)	1,200
<b>Increase in Working Capital</b>	<b>23,500</b>	26,100	4,400
<b>Working Capital, Beginning of Year</b>	<b>38,000</b>	11,900	7,500
<b>Working Capital, End of Year</b>	<b>\$61,500</b>	\$38,000	\$11,900

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

## 1. Summary of Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of Commodore International Limited and its U.S. and non-U.S. subsidiaries. All significant intercompany transactions have been eliminated.

### Foreign Currency Translation

The consolidated financial statements are expressed in United States currency. Non-U.S. monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets are translated at historical rates. Income and expenses are translated at average rates prevailing during the year except cost of sales and depreciation which are translated at historical rates. Gains or losses resulting from translation are included in the consolidated statements of operations. Such gains and losses were not material in 1981, 1980 or 1979.

**Inventories** Inventories are stated at the lower of cost (first-in, first-out) or market. All inventories include material, labor and overhead. Intercompany profits are eliminated from inventory valuations. Inventories as of 30 June 1981 and 1980 were (000s omitted):

	1981	1980
Finished Goods	\$26,800	\$19,200
Raw Materials and Work-in-Process	26,000	16,900
	\$52,800	\$36,100

## Property and Equipment

Major classes of property and equipment are as follows (000s omitted):

Description	30 June		Estimated Useful Lives
	1981	1980	
Land	\$ 1,800	\$ 1,500	
Machinery and Equipment	31,100	19,100	3-10 Years
Buildings and Improvements	6,300	5,500	25-40 Years
Furniture and Fixtures	1,700	800	5-10 Years
Tooling	2,600	1,800	4 Years
Leasehold Improvements	1,500	800	Life of Lease
	\$45,000	\$29,500	

Depreciation has been provided using primarily the straight-line method over the estimated useful lives of the assets for financial reporting purposes. Expenditures for renewals and betterments are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts. Any gain or loss is included in the consolidated statements of operations.

### Research and Development

**Costs** The Company expenses all research and development costs as incurred.

**Investment Tax Credit** The "flow through" method is used to account for U.S. investment tax credits. Under this method, the credit is recognized as a reduction of the provision for income taxes in the year in which the credit is utilized.

## Earnings Per Share

Earnings per share is calculated using the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each year. The weighted average number of shares used to compute earnings per share was 10,307,000, 10,395,000 and 9,720,000 in 1981, 1980 and 1979, respectively. The weighted average number of shares for 1980 and 1979 have been restated to reflect a 3-for-1 stock split issued during fiscal 1981 (see Note 6). Dilution resulting from the potential exercise of stock options is not significant.

## 2. Acquisition

In February, 1979, the Company acquired, in a purchase transaction, all of the outstanding common stock of Micro Display Systems, Inc. (MDSI), a manufacturer of liquid crystal watches, for 100,000 shares of the Company's common stock (675,000 shares after stock splits). The reacquisition and retirement of 45,000 (300,000 shares after stock splits) of the shares during 1980 represented an adjustment to the purchase price resulting in the elimination of the remaining cost in excess of fair value of net assets acquired. If MDSI had been acquired as of the beginning of fiscal 1979, unaudited consolidated pro-forma results would have reflected net sales of \$78,200,000 and net income of \$700,000 (\$.07 per share) in 1979.

### 3. Income Taxes

Non-U.S. earnings before income taxes and extraordinary item amounted to \$36,700,000 in 1981, \$20,100,000 in 1980 and \$9,300,000 in 1979. The provision for income taxes applicable to non-U.S. operations was \$2,800,000 in 1981, (\$200,000) in 1980 and \$1,100,000 in 1979. The U.S. provision for federal income taxes was \$2,100,000, \$2,000,000 and \$800,000. The U.S. provision for state and local income taxes was \$1,000,000, \$300,000 and \$100,000. In 1980, the Company

recorded a tax benefit of \$1,700,000 (\$.17 per share) related to U.K. "stock relief" representing a reversal of previously deferred taxes.

Included in the 1981 provision for income taxes is \$1,300,000 representing the tax effect of a timing difference applicable to a non-U.S. subsidiary for differences between book and tax depreciation.

The difference between the statutory U.S. Federal income tax rate and the Company's effective tax rate is explained below (000s omitted):

	1981		1980		1979	
	Amount	Percent of Income	Amount	Percent of Income	Amount	Percent of Income
United States statutory rate	\$14,200	46%	\$8,400	46%	\$3,800	47%
Increases (reductions):						
Net effect of non-U.S. tax rates	(3,600)	(12)	(600)	(4)	(300)	(4)
Subsidiaries incorporated in a jurisdiction which does not levy income taxes	(6,400)	(21)	(6,400)	(35)	(2,100)	(26)
Losses not included in U.S. consolidated tax return	1,700	6	1,900	10	300	4
Reversal of U.K. taxes	—	—	(1,700)	(9)	—	—
Other, net	—	—	500	3	300	4
	\$ 5,900	19%	\$2,100	11%	\$2,000	25%

Utilization of prior year loss carryforwards in the U.S. and certain other countries has been treated as an extraordinary item in the consolidated statements of operations. At 30 June 1981, the Company's U.S. subsidiary had net operating loss carryforwards of approximately \$15,000,000 available to reduce

future taxable income. Approximately \$12,000,000 of the carryforwards expire after 1985.

In addition, the Company has U.S. investment tax credit carryforwards of approximately \$1,000,000 which expire in years through 1988.

### 4. Loans Payable

At 30 June 1981, the Company had unused lines of credit from U.S. banks aggregating \$20,000,000, which permit borrowings at interest rates which generally reflect the banks' prime rates. In addition, the Company had unused lines of credit with international banks totaling approximately \$21,000,000. Interest rates on borrowings vary from country to country depending on local borrowing conditions.

A portion of the Company's cash balances serves to compensate banks for credit lines and services. Such balances are not legally restricted.

The maximum month-end borrowings for loans payable during 1981 were \$27,900,000 (1980—\$16,400,000; 1979—\$3,000,000). The average borrowing outstanding during 1981 was \$17,100,000 (1980—\$10,700,000; 1979—\$1,800,000) at a weighted average interest rate of 17.8% (1980—14.4%; 1979—8.0%). As of 30 June 1981 the weighted average interest rate was 13.2% (1980—12.7%; 1979—7.1%).

In June, 1980, the Company entered into a Revolving Credit Agreement with a bank (see Note 5) which converted \$7,000,000 of a \$12,000,000 line of credit to long-term debt and the remaining balance was repaid. The highest month-end borrowing under this arrangement in 1980 was \$12,000,000. The average borrowing outstanding during 1980 was \$9,000,000 and the weighted average interest rate was 15.7%.

## Notes to Consolidated Financial Statements

(continued)

### 5. Long-Term Debt

(000s omitted)	1981	1980
Prime revolving credit, due July, 1982	\$ —	\$ 4,000
Short-term lines	—	3,000
Prime plus .25% revolving credit, due June, 1983	7,000	7,000
Prime plus .75% revolving credit, due January, 1983	5,000	5,000
108% of Prime, revolving credit, due June, 1984-1986	5,000	—
107% of Prime, revolving credit, due June, 1983-1987	2,000	—
Prime plus .75% revolving credit, due December, 1982	2,000	—
Real estate mortgages, 9.5% to 9.75%, due in varying amounts through 2005	3,300	1,400
Capitalized equipment lease obligations averaging 8.9% (7.8% in 1980) payable in varying amounts through 1987 (Note 7)	10,600	4,900
	34,900	25,300
Less current portion	2,900	1,000
	\$32,000	\$24,300

On 30 June 1981, the Company entered into a \$5,000,000 Revolving Credit Agreement with a bank whereby notes may be issued at 108% of Prime. Such notes mature 30 June 1984 at which time outstanding amounts will be payable in quarterly installments over a two year period.

On 30 June 1981, the Company entered into a second \$5,000,000 Revolving Credit Agreement with a bank whereby notes may be issued at 107% of Prime. Such notes mature 30 June 1983 at which time outstanding amounts will be payable in equal quarterly installments over a four year period.

On 30 June 1980, the Company entered into a \$7,000,000 Revolving Credit Agreement with two banks. The Company utilized \$4,000,000 of this line on 30 June 1980, and the

remaining \$3,000,000 during 1981 to refinance short-term lines of credit. Accordingly, at 30 June 1980, \$3,000,000 of short-term lines of credit were classified as long-term debt. This agreement was refinanced at 30 June 1981 using the proceeds of the above mentioned lines.

On 30 June 1980, the Company entered into a second \$7,000,000 Revolving Credit Agreement with a bank, whereby notes may be issued at prime plus .25% and mature 30 June 1983.

Among other restrictions, various revolving credit agreements require the Company to maintain certain financial ratios and minimum levels of working capital and net worth. Retained earnings available for dividends and the acquisition of capital stock totaled \$12,700,000 at 30 June 1981. Certain of the agreements also require the Company to maintain compensating balances. Such funds are not legally restricted.

Approximate annual maturities of long-term debt at 30 June 1981 are as follows (000s omitted):

1982	\$ 2,900
1983	16,800
1984	3,100
1985	5,400
1986	4,500
Later years	2,200
	\$34,900

### 6. Common Stock

In November 1980, the shareholders of the Company approved an increase in the authorized number of common shares to 15,000,000 shares.

#### Stock Splits

In November, 1980, a three-for-one stock split was effected in the form of a stock dividend by the issuance of two additional shares of \$1.00 par value common stock for each share then outstanding. The number of shares and per share amounts have been restated to reflect such distribution.

#### Stock Option Plans

The Company has two stock option plans in effect at 30 June 1981. The 1974 Plan, which was designed to qualify under Section 422 of the U.S. Internal Revenue Code, as amended, provides that options were to be granted at market value, expire in five years, and be exercisable in cumulative annual increments of 33%, nine months after the date of grant. There are no further shares available for grant under this Plan.

Options outstanding at 30 June 1981 were held by 19 employees and range in exercise price per share from \$2.67 to \$8.64. These options expire on various dates from September,

1983 to January, 1985. There were 49,125 and 35,625 shares exercisable under the terms of the Plan at 30 June 1981 and 1980, respectively.

A summary of transactions during 1981 and 1980 relating to the 1974 Plan is shown below:

	Number of Shares	Average Price Per Share	Total
Outstanding at 30 June 1979	284,418	\$1.99	\$566,000
Granted	189,375	3.82	723,000
Exercised	(183,507)	.85	(156,000)
Cancelled	(86,286)	3.89	(336,000)
Outstanding at 30 June 1980	204,000	3.91	797,000
Granted	—	—	—
Exercised	(80,000)	3.26	(261,000)
Cancelled	(750)	4.00	(3,000)
Outstanding at 30 June 1981	123,250	\$4.32	\$533,000

The 1980 Plan, which was approved by the shareholders in November, 1980, provides for certain officers and key employees to purchase up to 750,000 shares of the Company's common stock. Options expire in six years and are generally exercisable in annual increments of 20% beginning one year from the grant date. At 30 June 1981, options were held by 21 employees and range in exercise price per share from \$7.33 to \$34.50. These options expire on various dates from November, 1985, to February, 1987. There were 6,000 shares exercisable under the terms of the Plan at 30 June 1981. None were exercisable in fiscal 1980. Option activity relating

to the 1980 Plan, from inception through 30 June 1981, is shown below:

	Number of Shares	Average Price Per Share	Total
Outstanding at 30 June 1979	—	\$ —	\$ —
Granted	98,250	9.64	947,000
Exercised	—	—	—
Cancelled	—	—	—
Outstanding at 30 June 1980	98,250	9.64	947,000
Granted	138,800	25.62	3,556,000
Exercised	(4,050)	7.65	(31,000)
Cancelled	(57,000)	11.12	(634,000)
Outstanding at 30 June 1981	176,000	\$21.80	\$3,838,000

During 1980 and 1979, the Board of Directors approved certain non-qualified options under substantially the same terms as the 1980 Plan. At 30 June 1981, non-qualified options to purchase 48,750 shares at an average price per share of \$3.40 (exercise prices range from \$1.33 to \$5.24) were held by 4 employees. As of that date, 21,900 shares were exercisable. These options expire on various dates from July 1984 to September 1985.

The Company recognizes as compensation expense the difference between the quoted market price of the stock at the date of grant and the option price to be paid by an employee. In this regard, the Company has recognized \$400,000 as compensation expense in fiscal 1981.

## 7. Leases

The Company leases certain machinery and equipment, manufacturing facilities, warehousing, and administrative offices with terms expiring at various dates to 2001. The gross value of property (principally machinery and equipment) included under capital leases as of 30 June 1981 and 1980 is \$13,400,000 and \$6,300,000, respectively. The related accumulated amortization at 30 June 1981 and 1980 is \$2,900,000 and \$1,400,000, respectively. Amortization expense of property under capital leases was \$1,500,000 and \$800,000 in 1981 and 1980, respectively. Total rental expense under operating leases was \$2,100,000 in 1981 and \$1,200,000 in 1980. Minimum future obligations on leases at 30 June 1981 are as follows (000s omitted):

	Capital Leases	Operating Leases
1982	\$ 3,100	\$1,300
1983	2,900	1,000
1984	2,700	700
1985	2,400	500
1986	1,400	500
Later Years	—	5,800
Total minimum obligations	\$12,500	\$9,800
Less: Amounts representing interest	1,900	
Present value of net minimum obligations	\$10,600	

## Notes to Consolidated Financial Statements

(continued)

### 8. Product Group Information

(000s omitted)

#### Product Segments

	Computer Systems	Consumer Products	Semiconductor Components	Office Equipment	Eliminations	Consolidated
<b>1981</b>						
Sales to unaffiliated customers	\$132,500	\$ 8,200	\$34,900	\$10,900	\$ —	\$186,500
Intersegment sales	—	—	8,900	3,200	(12,100)	—
Net sales	<u>\$132,500</u>	<u>\$ 8,200</u>	<u>\$43,800</u>	<u>\$14,100</u>	<u>\$(12,100)</u>	<u>\$186,500</u>
Income (loss) from operations	<u>\$ 34,800</u>	<u>\$(5,000)</u>	<u>\$ 4,900</u>	<u>\$ 100</u>	<u>\$ (100)</u>	<u>\$ 34,700</u>
Interest expense, net						(3,900)
Income before income taxes and extraordinary item						<u>\$ 30,800</u>
Identifiable assets	<u>\$ 88,300</u>	<u>\$ 9,200</u>	<u>\$35,000</u>	<u>\$13,800</u>	<u>\$ (1,200)</u>	<u>\$145,100</u>
Depreciation expense	<u>\$ 1,500</u>	<u>\$ 100</u>	<u>\$ 2,600</u>	<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 4,600</u>
Capital expenditures	<u>\$ 3,700</u>	<u>\$ —</u>	<u>\$ 9,600</u>	<u>\$ 2,900</u>	<u>\$ —</u>	<u>\$ 16,200</u>
<b>1980</b>						
Sales to unaffiliated customers	\$ 82,800	\$11,100	\$18,900	\$12,800	\$ —	\$125,600
Intersegment sales	—	—	9,300	2,600	(11,900)	—
Net sales	<u>\$ 82,800</u>	<u>\$11,100</u>	<u>\$28,200</u>	<u>\$15,400</u>	<u>\$(11,900)</u>	<u>\$125,600</u>
Income (loss) from operations	<u>\$ 25,500</u>	<u>\$(6,900)</u>	<u>\$ 2,400</u>	<u>\$ 1,500</u>	<u>\$ (1,000)</u>	<u>\$ 21,500</u>
Interest expense, net						(3,200)
Income before income taxes and extraordinary item						<u>\$ 18,300</u>
Identifiable assets	<u>\$ 53,300</u>	<u>\$13,700</u>	<u>\$19,700</u>	<u>\$ 5,900</u>	<u>\$ (3,700)</u>	<u>\$ 88,900</u>
Depreciation expense	<u>\$ 1,000</u>	<u>\$ 300</u>	<u>\$ 1,800</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 3,300</u>
Capital expenditures	<u>\$ 4,900</u>	<u>\$ 300</u>	<u>\$ 4,700</u>	<u>\$ 700</u>	<u>\$ —</u>	<u>\$ 10,600</u>
<b>1979</b>						
Sales to unaffiliated customers	\$ 34,400	\$15,900	\$10,000	\$10,800	\$ —	\$ 71,100
Intersegment sales	—	—	7,800	700	(8,500)	—
Net sales	<u>\$ 34,400</u>	<u>\$15,900</u>	<u>\$17,800</u>	<u>\$11,500</u>	<u>\$ (8,500)</u>	<u>\$ 71,100</u>
Income (loss) from operations	<u>\$ 6,600</u>	<u>\$ 1,600</u>	<u>\$ 1,300</u>	<u>\$ 800</u>	<u>\$ (200)</u>	<u>\$ 10,100</u>
Interest expense, net						(2,100)
Income before income taxes and extraordinary item						<u>\$ 8,000</u>
Identifiable assets	<u>\$ 21,800</u>	<u>\$19,000</u>	<u>\$15,000</u>	<u>\$ 4,600</u>	<u>\$ (2,900)</u>	<u>\$ 57,500</u>
Depreciation expense	<u>\$ 300</u>	<u>\$ 500</u>	<u>\$ 1,400</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 2,400</u>
Capital expenditures	<u>\$ 700</u>	<u>\$ 4,500</u>	<u>\$ 2,800</u>	<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 8,500</u>

## Geographic Segments

	North America	Europe	Asia	Eliminations	Consolidated
<b>1981</b>					
Sales to unaffiliated customers	\$ 75,200	\$85,600	\$25,700	\$ —	\$186,500
Intersegment sales	50,300	—	14,000	(64,300)	—
Net sales	<u>\$125,500</u>	<u>\$85,600</u>	<u>\$39,700</u>	<u>\$(64,300)</u>	<u>\$186,500</u>
Income (loss) from operations	<u>\$ 2,800</u>	<u>\$31,200</u>	<u>\$ 2,100</u>	<u>\$ (1,400)</u>	<u>\$ 34,700</u>
Interest expense, net					(3,900)
Income before income taxes and extraordinary item					<u>\$ 30,800</u>
Identifiable assets	<u>\$ 81,800</u>	<u>\$44,700</u>	<u>\$21,700</u>	<u>\$ (3,100)</u>	<u>\$145,100</u>
Depreciation expense	<u>\$ 3,900</u>	<u>\$ 300</u>	<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 4,600</u>
Capital expenditures	<u>\$ 13,200</u>	<u>\$ 2,200</u>	<u>\$ 800</u>	<u>\$ —</u>	<u>\$ 16,200</u>
<b>1980</b>					
Sales to unaffiliated customers	\$ 45,900	\$60,800	\$18,900	\$ —	\$125,600
Intersegment sales	44,500	—	18,800	(63,300)	—
Net sales	<u>\$ 90,400</u>	<u>\$60,800</u>	<u>\$37,700</u>	<u>\$(63,300)</u>	<u>\$125,600</u>
Income (loss) from operations	<u>\$ 3,600</u>	<u>\$18,100</u>	<u>\$ 1,600</u>	<u>\$ (1,800)</u>	<u>\$ 21,500</u>
Interest expense, net					(3,200)
Income before income taxes and extraordinary item					<u>\$ 18,300</u>
Identifiable assets	<u>\$ 52,400</u>	<u>\$31,200</u>	<u>\$11,200</u>	<u>\$ (5,900)</u>	<u>\$ 88,900</u>
Depreciation expense	<u>\$ 2,800</u>	<u>\$ 100</u>	<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 3,300</u>
Capital expenditures	<u>\$ 9,000</u>	<u>\$ 600</u>	<u>\$ 1,000</u>	<u>\$ —</u>	<u>\$ 10,600</u>
<b>1979</b>					
Sales to unaffiliated customers	\$ 33,600	\$26,800	\$10,700	\$ —	\$ 71,100
Intersegment sales	20,000	2,800	11,300	(34,100)	—
Net sales	<u>\$ 53,600</u>	<u>\$29,600</u>	<u>\$22,000</u>	<u>\$(34,100)</u>	<u>\$ 71,100</u>
Income (loss) from operations	<u>\$ 7,000</u>	<u>\$ 1,800</u>	<u>\$ 1,500</u>	<u>\$ (200)</u>	<u>\$ 10,100</u>
Interest expense, net					(2,100)
Income before income taxes and extraordinary item					<u>\$ 8,000</u>
Identifiable assets	<u>\$ 40,900</u>	<u>\$10,600</u>	<u>\$ 8,900</u>	<u>\$ (2,900)</u>	<u>\$ 57,500</u>
Depreciation expense	<u>\$ 2,100</u>	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 2,400</u>
Capital expenditures	<u>\$ 7,300</u>	<u>\$ 700</u>	<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 8,500</u>

## Notes to Consolidated Financial Statements

(continued)

## Auditors' Report

## Common Stock Information

### 9. Litigation

In January, 1981, the Company brought suit in the California Superior Court against a former employee, seeking return of 54,000 shares of the Company's common stock which were improperly received and retained by the former employee upon exercise of stock options. The Company also seeks return of compensation received by the former employee while violating his fiduciary duties to the Company as well as damages for unfair competition and injunctive relief to prevent him from inducing any further Company employees to leave and accept employment with him. The former employee filed a Cross Complaint against both the Company and Jack Tramiel, the Company's Vice Chairman of the Board, based on an alleged breach of contract, seeking compensatory damages of not less than \$2,500,000 and punitive damages of not less than \$150,000,000. Discovery is continuing and trial is scheduled for late November, 1981. Based on current information and the opinion of counsel, the Company believes there will be no recovery on the Cross Complaint.

To the Shareholders of Commodore International Limited:

We have examined the consolidated balance sheets of Commodore International Limited (a Bahamian Corporation) and subsidiaries as of June 30, 1981 and 1980, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years ended June 30, 1981, 1980 and 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Commodore International Limited and subsidiaries as of June 30, 1981 and 1980, and the results of their operations and the changes in their financial position for the years ended June 30, 1981, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Philadelphia, Pa.,  
July 30, 1981

On March 6, 1981 the Company shares were listed on the New York Stock Exchange. Prior to that date, the Company shares were listed on the American Stock Exchange.

The high and low quarterly common stock prices for the past two fiscal years are as follows:

	Fiscal 1981 High-Low	Fiscal 1980 High-Low
First Quarter	30% - 10¾	6¾ - 4½
Second Quarter	53% - 29¼	10% - 5%
Third Quarter	49¼ - 24	13¼ - 7½
Fourth Quarter	51¾ - 31%	11¾ - 8½

All common stock prices have been adjusted to reflect stock splits during fiscal 1981 and 1980.

# Commodore International Limited and Subsidiaries

## Board of Directors

Irving Gould  
Chairman of the Board  
Jack Tramiel  
Vice Chairman of the Board  
and Chief Executive Officer  
Burton Winberg  
President  
Rockport Holding, Limited  
Leonard I. Schreiber  
Attorney at Law  
Ralph D. Seligman  
Attorney at Law  
Seligman, Maynard & Co.

## Officers

Irving Gould  
Chairman of the Board  
Jack Tramiel  
Vice Chairman of the Board  
and Chief Executive Officer  
H. E. J. Finke  
President and Chief Operating Officer  
Richard D. Sanford  
Executive Vice President and Secretary  
David Alderson  
Vice President, Far East Operations  
Bernhard W. Witter  
Vice President, Finance  
Gregory A. Pratt  
Vice President and Controller

## Head Office

Commodore International Limited  
Sassoon House  
Shirley & Victoria  
P.O. Box N-10256  
Nassau, Bahamas

## Executive Office

Commodore International Limited  
Valley Forge Corporate Center  
950 Rittenhouse Road  
Norristown, Pennsylvania 19403

## Other Offices

Commodore Business Machines, Inc.  
3330 Scott Blvd.  
Santa Clara, California 95050  
2344B Walsh Avenue  
Santa Clara, California 95051  
1701 East Edinger Avenue  
Santa Ana, California 92705  
681 Moore Road  
King of Prussia, Pennsylvania 19406  
761 Fifth Avenue  
King of Prussia, Pennsylvania 19406  
Two Tower Office Park  
Woburn, Massachusetts 01801  
5360 Snapfinger Woods Drive  
Decatur, Georgia 30035  
4350 Beltwood Parkway, South  
Dallas, Texas 75234  
790 Maple Lane  
Bensenville, Illinois 60106

MOS Technology  
Valley Forge Corporate Center  
950 Rittenhouse Road  
Norristown, Pennsylvania 19403

Frontier Manufacturing  
2955 Airway Avenue  
Costa Mesa, California 92626

Commodore Optoelectronics  
4350 Beltwood Parkway, South  
Dallas, Texas 75234

Commodore Consumer Products Group  
761 Fifth Avenue  
King of Prussia, Pennsylvania 19406

Commodore Business Machines, Limited  
3370 Pharmacy Avenue  
Agincourt, Ontario, M1W 2K4 Canada

Commodore Electronics Limited  
Sassoon House  
Shirley & Victoria  
P.O. Box N-10256  
Nassau, Bahamas

Dufourstrasse 9  
4010 Basel  
Switzerland

Commodore Business Machines (U.K.)  
Limited  
Slough Trading Estate  
818 Leigh Road  
Slough, Berkshire  
England SL1 4BD

Commodore Buromaschinen GmbH  
Dornhofstrasse 38  
6078 Neu-Isenburg  
West Germany  
Ernst-Amme Strasse 24-25  
3300 Braunschweig  
West Germany

Commodore A.G. Schweiz  
Dufourstrasse 9  
4010 Basel  
Switzerland

Commodore Electronics (H.K.) Limited  
Shing Dao Industrial Building  
232 Aberdeen Road  
Aberdeen, Hong Kong

Commodore Japan Limited  
Akasaka Yamakatsu, Building 6-F  
5-32, Akasaka 8-Chome, Minato-ku  
Tokyo 107, Japan

Taisei-Denshi Building  
8-14 Ikue 1-Chome, Asahi-ku  
Osaka 535, Japan

Castlejur Pty. Ltd.  
3 Campbell Street  
Artarmon, New South Wales 2064  
Australia

## Transfer Agents and Registrars

The Canadian Bank of Commerce  
Trust Company  
New York, New York

Canadian Imperial Bank of Commerce  
Trust Company (Bahamas) Limited  
Nassau, Bahamas

## Auditors

Arthur Andersen & Co.  
Philadelphia, Pennsylvania

## Counsel

Seligman, Maynard & Co.  
Nassau, Bahamas  
Baker & McKenzie  
New York, New York  
Davies, Ward & Beck  
Toronto, Ontario  
Leonard I. Schreiber  
Westport, Connecticut

## Shares Listed

New York Stock Exchange  
(Ticker Symbol: CBU)



**brought to you by**

**<http://commodore.international/>**

**commodore international historical society**

**this document was generously donated by  
don greenbaum**